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TO RUEHC/SECSTATE WASHDC 2250  
INFO RUEHBO/AMEMBASSY BOGOTA 3883  
RUEHBU/AMEMBASSY BUENOS AIRES 2572  
RUEHCV/AMEMBASSY CARACAS 9771  
RUEHQT/AMEMBASSY QUITO 0671  
RUEHLP/AMEMBASSY LA PAZ SEP SANTIAGO 0836  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC  
RHEFDIA/DIA WASHDC  
RHMFIUU/CDR USSOUTHCOM MIAMI FL  
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC

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DEPT FOR WHA/AND, EB/IEP  
COMMERCE FOR 4331/MAC/WH/MCAMERON  
TREASURY FOR AJEWELL AND JLEVINE  
DEPT PASS TO OPIC FOR J BRACHE  
DEPT PASS TO EXIM FOR DON HULTMAN

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [EFIN](#) [PGOV](#) [TBIO](#) [PE](#)

SUBJECT: ORTHODOX ECONOMIST NAMED TO CHAIR PERU'S CENTRAL BANK BOARD

¶1. Summary: President Alan Garcia named another well-known orthodox economist, Julio Velarde, to chair the Central Bank's Board of Governors, and three other governors as well. The other nominees are the asparagus exporter and former Agriculture Minister (in the first Fujimori Administration) Jose Chlimper, orthodox economist and former IMF official Jose Valderrama, and former Industry Minister Carlos Raffo, who had served in Garcia's first Administration. Velarde is an ally of Garcia's conservative opponent in this year's presidential elections, Lourdes Flores. Markets have welcomed these designations as they indicate the willingness of the Garcia Administration to designate technocrats to key economic positions, as this may assure the independence of the Central Bank. Congress will consider the ratification of Velarde and will designate its own three governors to complete the new board. End Summary.

#### CONSERVATIVE ECONOMIST

¶2. The official gazette El Peruano carried on September 7, 2006, a Supreme Resolution designating Julio Emilio Velarde Flores as chairman of the Central Bank's (BCR) Board of Governors for a five-year term. Velarde is no stranger to the BCR, as he served twice at its board of governors, first in 1990-1992, during President Alberto Fujimori's first term, and later under President Alejandro Toledo, both incomplete five-year terms. Born on July 1, 1952, Velarde received his B.Sc. in economics from the reputed local University of the Pacific (UP) in 1974; he did graduate studies in economics in Germany and was a Ph.D candidate in economics at Brown University. He speaks good English and German.

¶3. Velarde was a professor and researcher at the University of the Pacific since 1975, and has done consultancy work for international agencies such as the IDB, World Bank, USAID, ILO and Canada's IDRC. In October 2003 he was designated Executive President of the Latin-American Reserve Fund (FLAR, for its Spanish acronym) for a three year period, from 2004. FLAR was created in 1976 as the Andean Reserve Fund, to be an alternative to the IMF for the Andean countries. In 1988 it became FLAR to allow in other Latin-American countries, with Bolivia, Colombia, Costa Rica, Ecuador, Peru and Venezuela its current member countries.

¶4. For several years, as he worked as a civil servant for

international organizations, Velarde was also conservative presidential candidate Lourdes Flores' personal economic adviser. If Flores had won the 2006 elections, Velarde was expected to be given a key economic position in her government.

#### OTHER CONSERVATIVES ON THE BOARD

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¶5. The BCR board of governors is made of seven members, four nominated by the Executive branch and three by Congress. The GOP designated the three other nominees: Jose Chlimper Ackerman, Jose Valderrama Leon, and Carlos Alberto Raffo Dasso. Chlimper is a major asparagus exporter, a partner in a local pharmaceutical company and former Agriculture Minister in the first Fujimori Administration in the 1990s. An agricultural engineer by training, he is considered a reputable business leader. He is allied with Parliament's 13-strong Fujimorista group, a group now headed by Keiko Fujimori, the former President's daughter.

¶6. Valderrama is a respected orthodox economist and former IMF official. He has worked in various positions and at different times at the Ministry of Economy and Finance (MEF), as Advisor to the Minister on macroeconomic issues, and he also headed the BCR's Research Department. Valderrama has been a manager at two reputed local think tanks, the Peruvian Institute of Economics, and Chief Economist of the local consultancy Apoyo S.A., the group headed by recently nominated Ambassador to the United States Fernando Ortiz de

Zevallos. Velarde did his doctoral work in economics at Vanderbilt University. He is said to have been the personal choice of Minister of Economy and Finance Luis Carranza.

¶7. Carlos Alberto Raffo is a friend of President Garcia's and served as Industry Minister in his first APRA Administration (1985-90). According to political observers, Raffo fills the APRA's "quota" on the BCR's board, and will likely serve as the President's eyes and ears on the board.

#### COMMENT

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¶8. The appointment of several conservative nominees to the BCR's board of governors complements the appointment last July 2006 of orthodox economist Luis Carranza as Economy and Finance Minister, and markets have reacted positively. These latest nominations are likely to work to help maintain the BCR's independence from the Executive - which may be just what the Garcia Administration intends, given the President's unfortunate experience in the 1980s.

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